Morton, Oliver Perry

National-bank circulation

Washington

1874

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NATIONAL-BANK CIRCULATION.

SPEECH

OF

HON. O. P. MORTON,

OF INDIANA,

IN THE

UNITED STATES SENATE

MARCH 23, 1874.

WASHINGTON:
GOVERNMENT PRINTING OFFICE
1874.

SPEECH

OF

HON. OLIVER P. MORTON.

The Senate, as in Committee of the Whole, resumed the consideration of the bill (S. No. 432) to amend the act entitled "An act to provide for the redemption of the 3 per cent. temporary-loan certificates and for an increase of national-bank notes," approved July 12, 1870, the pending question being the motion of Mr. BUCKINGHAM to refer the bill to the Committee on Finance with the instructions adopted on motion of Mr. MERRIMON.

THE CURRENCY.

Mr. MORTON. Mr. President, opinions on finance in the Senate may be divided into three general classes: first, those in favor of taking immediate steps for the resumption of specie payments; secondly, those who are in favor of doing nothing; and, thirdly, those who believe that the country is not now in a condition to return to specie payments; that there should be some increase in the volume of the currency to meet the increase of population and business; that the facilities and benefits of the national banking system should be extended to all the States alike, thus relieving it of its present sectional character; and that the restriction upon the amount of national-bank circulation should be removed to relieve it of its monopoly feature.

These general classes of opinions have numerous subdivisions, and among the last are those who, while opposed to what is called free banking, are yet in favor of such enlargement of the national-bank circulation as to give to the States of the West and South what their local necessities demand.

DREAD OF CONTRACTION.

We are told that business is everywhere waiting for the action of Congress. This is undoubtedly true; but business is not waiting for fear there will be free banking or more currency. Men are not deterred from embarking in new enterprises or carrying on their regular business by apprehensions that money will be plentier. Business is everywhere waiting because of apprehensions that the currency will be contracted, attended with a general decline of prices and hard times; that there will be forced resumption of specie payments, endangering the solvency of every man who is now in debt, or contracts new obligations. Threats of contraction and resumption have been uttered in this Chamber every day for months which hang over the business of the country like suspended swords. The obstructionists are those who denounced from day to day our "swindling, depreciated, inflated currency," a currency that stood the ordeal of the panic and came forth with increased credit; though it remains to be seen whether it can stand the continued assaults that are made upon it in Congress. If the people still retain confidence in it, and their fears do not swell

into a panic, it will be because the statements that are daily made upon this floor are discredited, and because the good sense of the country turns back the muddy tide of financial sophistry.

Every proposition in regard to the national finances which leaves out of view the actual condition of the country is delusive and mischievous. Every legislator who prescribes a remedy for our financial ills in accordance with a favorite theory, regardless of the national situation and the relation it bears to other countries is as absurd as the physician who should prescribe without having ascertained the disease or condition of the patient.

WHERE IS THE GOLD TO RESUME WITH?

It is incumbent upon those who insist upon the speedy resumption of specie payments to show how it can be done. Failing to do that, their suggestions are as idle as the aspirations of the man who would fly to the moon, but knows not how. Few will contend that specie payments can be successfully established and maintained with less than four hundred millions of coin in the country. The highest estimate of the amount in the country now does not exceed one hundred and fifty millions, and the question how the other two hundred and fifty millions are to be obtained has not been answered by anybody. When Peter the Great was told what could be accomplished with a powerful navy, he stopped the proposer short, and said, "But how am I to get the navy?"

The first thing for those who are urgently pressing immediate resumption is to show how we can get the gold with which to resume. Vague declamation about the beauties of resumption is like the notes of the mocking-bird, which please only by their delusions.

We have told the people of the South for years that they must accept the situation. Let us try to practice what we preach. We, too, must accept the situation. The existence of our immense debt is a fact as inexorable as the abolition of slavery. That, beside individual indebtedness, we owe in various forms more than thirteen hundred millions abroad, and that the balance of trade runs against us heavily every year, are inexorable facts. A new system of currency, the loss of the greater part of our gold, and new financial and commercial relations with Europe, are a part of the consequences of the war; and the statesman who shuts his eyes to them is no wiser than the blind man who dashes his head against a stone wall.

GENERAL PROSTRATION.

The apparent abundance of money at New York and other financial centers is only evidence that enterprise is arrested, and speculation dead. Instead of the effect of the panic having passed away, it is now in its second stage. Trade goes on in its ordinary channels, because people must be clothed and fed; but nearly all that constitutes growth, development, extension, is stricken by paralysis. The body of enterprise lies prostrate. One school of physicians say, "Let the patient alone and he will get well in two or three years; let nature do the work." Another say, "Bleed him, reduce the circulation; the system must be depleted before he can recover." Another say, "Stimulate the patient, give him tonics, attempt to arouse his energies; infuse into his veins warm, fresh blood, and get him up on his feet again as soon as possible." These physicians have been in consultation now going on four months, and have agreed upon nothing; the principal obstructionists being that school which may be described as the "Sangrados" of finance, who believe in nothing but depletion and salivation, and that the patient must be worse before he can be better.

They regard specie payment as the object and end of financial systems, and believe it cannot be established on the present volume of currency, and that there must be contraction. The men who believe there is money enough in the country to meet the demands of business when it is healthy and robust, because there is a plethora in the banks of New York now, are as logical as those who should argue that there is plenty of food in the land, because that which is placed before a sick man remains untasted.

The refusal upon the part of unconditional resumptionists to consider the condition of the country, and those broad differences which distinguish it from the old countries of Europe, and who insist that all times are alike, and that what can be done in one country can be done in another, remind us of the story of the man who resolved to shear the wolf. "Have you considered the danger of the enterprise and its unprofitable character?" he was asked. "No," said he, "I have considered nothing but the right."

FOUR HUNDRED MILLIONS OF GREENBACKS NEEDED.

There is much complaint against the Secretary of the Treasury for the issue of twenty-seven millions of the so-called forty-four million reserve of greenbacks. In a recent memorial, signed by many bankers, brokers, and merchants of New York, it was declared that this issue was in violation of the law, which was assuming the very point disputed by the Secretary. But there is a doubt in the public mind touching the legality of this issue, which ought to be removed; and I am of the opinion that Congress ought to declare the issue legal up to the aggregate amount of four hundred millions. The increase of the circulation to meet the demands of increasing business, wealth, and population, is not inflation in any reasonable sense. You might as well talk about inflating the population of the country.

If the volume of the currency was not too large in 1870, it must be too small now, if from no other cause, from the increase of population and business. In his annual message, in December, the President makes this statement:

> In view of the great actual contraction that has taken place in the currency, and the comparative contraction continuously going on, due to the increase of population, increase of manufactories, and all the industries, I do not believe there is too much of it now for the dullest period of the year. Indeed, if clearing-houses should be established, thus forcing redemption, it is a question for your consideration whether banking should not be made free, retaining all the safeguards now required to secure billholders.
>
> In any modification of the present laws regulating national banks, as a further step toward preparing for resumption of specie payments, I invite your attention to a consideration of the propriety of exacting from them the retention, as a part of their reserve, either the whole or a part of the gold interest accruing upon the bonds pledged as security for their issue.
>
> I have not reflected enough on the bearing this might have in producing a scarcity of coin with which to pay duties on imports to give it my positive recommendation. But your attention is invited to the subject.
>
> During the last four years the currency has been contracted, directly, by the withdrawal of 3 per cent. certificates, compound-interest notes, and seven-thirty bonds, outstanding on the 4th of March, 1869, (all of which took the place of legal-tenders in the bank reserves,) to the exent of $63,000,000.
>
> During the same period there has been a much larger comparative contraction of the currency. The population of the country has largely increased. More than twenty-five thousand miles of railroad have been built, requiring the active use of capital to operate them. Millions of acres of land have been opened, requiring capital to move the products. Manufactories have multiplied beyond all precedent in the same period of time, requiring capital weekly for the payment of wages and for the purchase of material; and probably the largest of all comparative contraction arises from the organizing of free labor in the South. Now every laborer there receives his wages, and for want of savings-banks the greater part of such wages is carried in the pocket, or hoarded until required for use.

Suppose, if you please, that the population in 1870 was thirty-nine millions, and the volume of currency just adequate to their wants; and that in 1875 the population had increased to forty-four millions, and wealth and business in a still greater ratio, will any man in his senses deny that there should be also an increase of the currency?

CURRENCY SHOULD GROW WITH THE COUNTRY.

When the business of the country has outgrown the volume of currency, the effect is the same as contraction. The volume of the currency not being sufficient to transact the business of the country at the prevailing prices of property and labor, embarrassment and obstruction are the result, and all prices are gradually reduced, so that a given amount of currency will pay for more property and labor. A scarcity of money always produces a reduction of prices. When the business of the country is done with a volume of currency relatively diminishing, to bring it within the capacity of that currency, prices must diminish. Experience shows that such a diminution of prices produces a diminution of business and enterprise, and invariably checks the growth and progress of the country; and such a period is always known as "hard times."

The policy of "masterly inactivity," as advocated by the Senator from Massachusetts, [Mr. BOUTWELL,] is but contraction in the other direction. The process is slow but inevitable, and is illustrated by the legend of the iron shroud in which the living youth was placed, which, by his continued growth, produced pressure, agony, and death. If the dictates of common sense be applicable to the subject of currency, of which the arguments of some Senators here might lead us to doubt, we must conclude that, as currency is the instrument of business, it should increase with business; that the people were not made for the currency, but the currency for the people. A law requiring that the man should have no more food than the child would be considered absurd, tyrannical, and destructive; and yet not more so than that which declares that the volume of currency, once fixed, shall not be enlarged as the nation grows and prospers.

FREE BANKING.

I ask such increase of the currency as free banking will give. That will be governed by the law of supply and demand, and it is the only way in which what is called an elastic currency can be obtained. Not only should banking be free, but increased facilities should be afforded to banks to retire from business when they cease to be profitable, and are in excess of the wants of the country.

The establishment of national banks effected a total change in our financial system. The State-bank system had always been a burden to the country, and in the presence of war failed entirely. The notes of the State banks generally, having only a local circulation and credit, could not be received by the Government for taxes or used in payment of the Army or purchase of supplies. The object in the establishment of national banks was threefold: to furnish a currency of uniform and unquestioned value, to create a market for Government bonds, and to establish fiscal agents in every part of the United States. The State banks were taxed out of existence to make room for them, and when the United States thus took possession of the whole field of banking it was a plain and imperative obligation to adjust the system to the necessities and conditions of every part of the country, and to readjust it from time to time, according to the growth of population and business. The States were no longer at liberty to provide for themselves, and it was the duty of the Government to divide the

benefits of the new system among them equitably, and make it co-extensive with their wants.

ITS UNEQUAL DISTRIBUTION.

In the original act the whole amount of notes authorized by law was limited to three hundred millions; and it was provided that it should be distributed among the several States upon the following basis: one hundred and fifty millions according to the representative population, and the remainder to be apportioned by the Secretary of the Treasury, having due regard to the existing banking capital, resources, and business of each State. It was intended that the amount apportioned to each State should stand to its credit, to be taken by the citizens thereof when they were able or it suited their convenience to do so. By the table of apportionment prepared by the Secretary of the Treasury, the six New England States were entitled to less than forty millions, but, in violation of law, received one hundred and ten millions, being an excess of nearly seventy-one millions. Other Eastern States received in excess of their apportionment about ten millions. The result was, of course, that the Western and Southern States were left in deficiency.

By the act of 1870 fifty-four millions of additional circulation were authorized to be distributed among the States in deficiency. But, as shown by the report of the Comptroller of the Currency, it still required forty millions to equalize the distribution upon the basis of the act of 1865; and when we consider the rapid growth and development of the States of the Northwest, it is obvious that it would now require at least twenty millions more to effect that object. When the original limit of three hundred millions was fixed to the national-bank circulation the system was an experiment, and there were large amounts of compound-interest notes, and other forms of public indebtedness, which were used as currency, and which have now been retired. The system is now an established success, and it is manifest that no arbitrary apportionment of a fixed amount of circulation can be made to meet the wants and conditions of different parts of the country; and that the number and locality of national banks should be governed by the law of demand, as is every other kind of business.

ITS BLEMISHES.

I am a friend of the national-banking system, believing it the best the country has ever had, and wish to relieve it of a blemish which is fast making it unpopular, and if continued will make it odious. This is its monopoly feature, and those who seek to preserve this feature are the worst enemies of the system. Even if the national-banking facilities had been divided among the States according to the provisions of the law, it would be a monopoly. But when the law was violated, and a few States seized upon the greater part, almost to the exclusion, and to the great detriment of others, there is added to the monopoly an injustice which it is the part of wisdom in the friends of the banks to abolish as soon as possible.

National banking, of itself, is a profitable business, and the people of one section of the country have as much right to enjoy it as those of another. And their exclusion from it cannot be distinguished from a prohibition to embark in manufactures or any other branch of trade.

The volume of currency should not be fixed by law, but determined solely by the demand. As it is the medium and instrument of business, the volume of it should not be fixed unless you can fix the volume of business. Men will not engage in national banking unless it is profitable; and it will not be profitable unless there is a demand for

its currency, and for banks as a place of deposit, and for those facilities which banks create.

WHAT IS INFLATION?

The word "inflation" has been confused in this debate with "depreciation." To inflate the currency is to increase the amount in circulation beyond the wants of business, whether it consist of gold and silver or paper money. The effects of "inflation" are the same, whether made by one kind of currency or the other. The currency of Germany has of late been greatly inflated by the acquisition of vast quantities of gold from France, just as that of Spain was, at one time, by silver from Mexico. Where the currency is increased arbitrarily, as in Germany by the accident of war, it enhances prices and produces derangement and disaster; but where it is in obedience to the demands of business, it produces no such results; and its effects are healthy and beneficial. Should the Government suddenly put into circulation one hundred millions of greenbacks, the act would be arbitrary, and the amount might exceed the demands of business and produce evil results. But were banking made free it is certain that new banks would not be established except to meet local wants and demands which could alone make them profitable. To talk about the currency being inflated by free banking is to ignore the laws of business and trade. There would be quite as much propriety in talking about the country being inflated with cotton-mills, grist-mills, and iron-furnaces, because there is no law limiting or restraining the number of such establishments, or the amount of capital they may employ. Banks and cotton-mills differ in their nature; but the motive that inspires the establishment of each is the same, profit; and the cause which will make each profitable is the same, demand.

THE PANIC.

Some time ago I showed from history that the great remedy for panics, as practiced in England and on the Continent for one hundred and fifty years, had been by the increase of paper currency. When the recent panic occurred in New York, there was immediately a universal demand for more paper currency. The President was besought by dispatches, letters, and deputations to put into circulation all the surplus currency in the Treasury, and to issue the forty-four million reserve, by the purchase of bonds. I happened in New York on the Sunday after the panic, and saw the crowds of bankers, brokers, capitalists, merchants, manufacturers, and railroad men who throughout that day thronged the halls, corridors, and parlors of the Fifth Avenue Hotel, beseeching the President to increase the currency by every means in his power, and declaring that unless the Government came to the rescue nothing could save the country from bankruptcy and ruin. Meetings were organized in the parlors, resolutions passed, and committees appointed to urge the President to increase the volume of currency, even by loaning greenbacks from the Treasury to the banks upon the deposit of bonds as security. The next day the banks declined to pay their depositors except in very small sums, issued certified checks to the amount of millions, which passed as currency; and the associated banks issued certificates to the amount of some twenty-six millions, which were used as money at the clearing-house and passed as currency on the streets. The President put into circulation some fifteen millions by the purchase of bonds, and gold declined to 6½ per cent. premium because there was no demand for it; and the things that everybody wanted and had confidence in were bonds, greenbacks, and national-bank notes.

IMPROVEMENTS IN PAPER MONEY.

Great improvements have been made in paper money since its first introduction, and our currency is as much superior to that issued by the banks of John Law, by the Congress of the Confederation, the wild-cat banks of Michigan, or the *assignats* of France, as gold coin is to the iron money of Sparta, or the cowries of Central Africa. And yet it is from the history of these old and imperfect forms of paper money that the chief arguments are drawn against our currency. There would be quite as much sense in arguing against the safe and splendid steamship that crosses the Atlantic in eight days, because of the weakness and imperfections of the flat-boats that first floated down the Mississippi River. The invention of the bill of exchange, it has been said, did more to develop trade and commerce than the discovery of steam as a motive-power; and the invention of a system of banking in which the bills were secured by bonds of unquestioned value was another great step in the improvement of paper money, and bringing it to that degree of perfection, and giving to it that safety and uniformity of value, which command the confidence of the country, and enable it to perform all the substantial offices of a medium of exchange. When we compare our paper currency with the old systems of banking, and with the issues by the governments of other countries, we find that it has undergone as much improvement within eighty years as has the steam-engine, and the end is not yet.

The main arguments now urged against paper money are drawn from the abuses of it under former and more imperfect systems; and such progress has it made in the judgment and confidence of mankind that political economists admit that the evils of paper money do not arise from its intrinsic defects but from its liability to abuse; and that, if it can be guarded from abuses, it may be made to constitute the most perfect system of currency in the world. Adam Smith said the substitution of paper money in the room of gold and silver money replaces a very expensive instrument of commerce with one much less costly and sometimes equally convenient. Ricardo said money in its most perfect state is paper money. McCulloch asserts that, if there were perfect security that the power of issuing paper money would not be abused, that is, if there were perfect security for its being issued in such quantities as to preserve its value relatively to the amount of circulating commodities nearly equal, the precious metals might be entirely dispensed with.

EVEN GOLD HAS ITS DRAWBACKS.

When our currency has a gold basis, that is, becomes convertible into gold, it is made subject to all the perturbations in gold in every part of the world. A scarcity of gold in England, Germany, or France, from any cause, a panic or other great disturbance, would make a draft upon our supply and threaten the stability of our banks and finances. A short crop at home or a large crop abroad would diminish our exports and make a transfer of gold necessary to pay off the balance against us. We thus make our currency dependent upon a metal of which other nations have a larger supply, and, owing no debt abroad, can better keep what they have; and owning largely the debts of other nations are annually supplied with gold in payment of interest as well as by their large commerce. In such case we meet other nations upon unequal terms, and place our home industry, business, and prosperity upon a foundation which it is in their power, by will or accident, to withdraw. These considerations should admon-

ish us not to attempt the work of resumption until such time as the condition of the country and the whole financial situation give reasonable assurance that it can be accomplished without great sacrifice and maintained without perpetual danger of revulsion and disaster.

GREENBACKS AS MONEY.

Money is of no use except as a medium of exchange. What we want of money is to buy lands, houses, fabrics, food, and labor. Commodities are the things we need. Credit is a great power in modern society. The paper money issued by one government may be worthless, or nearly so, while that issued by another may be equal in value to gold, owing to the stability of that government and the wealthy and prosperous nation it represents. This Government has issued three hundred and eighty-two millions of greenbacks, which are made a legal tender in payment of all private debts; and this quality gives them the principal function of money, and of itself communicates to them great value. They are also made receivable for all Government taxes except duties on imports, which is another element of value. The volume of greenbacks, as compared with the population of the United States, does not exceed the volume of gold in the country at the beginning of the war as compared with the population at that time, which brings them within the rule laid down by Mill, in which inconvertible paper may be used as a substitute for gold and retain its full value.

Mr. SCHURZ. Will the Senator be kind enough to point out to me where Mill said inconvertible paper money would not depreciate if its *per capita* proportion was equal to that of gold?

Mr. MORTON. I think I have stated the proposition clearly from Mill. I have not got it here. When my speech is over I can send for the volume if the Senator chooses to refer to it.

Mr. SCHURZ. I do not think you will find any such thing there.

Mr. MORTON. I shall be mistaken if I do not.

The issue of greenbacks solved the financial question of the war, and from that time forward there was little trouble or doubt about the means for carrying on the conflict. The greenbacks grew steadily in popular favor, and, notwithstanding the premium on gold, became, and are to-day, the most popular currency the country has ever had. The idea that they were a forced loan never occurred to the people. They took them without force, would part from them with reluctance; and there is little room to doubt that three-fourths of the people to-day would be glad to see the national-bank notes retired and greenbacks put in their place. But the people are represented as chafing because they are compelled to take these greenbacks as money, and because the Government violates its promise in not redeeming them in gold. Is there a man to-day owning a greenback in whose hands it is not worth as much as he gave for it, and who cannot use it for all the purposes of money, unless it be to pay duties on imports? There are men holding large quantities of greenbacks who would be glad to have them appreciate in their hands, by which they would without labor or risk make a profit of 10 per cent. The debtors of the country, the laboring men, the active business of the country, would have to pay the profit.

The people take the greenback with confidence, and hold it without fear, and never dream that they are oppressed by a forced loan until they hear it from some distinguished statesman or capitalist, who would like to know that the greenbacks in his safe while he eats and sleeps are making him 1 or 2 per cent. a month.

WHO PROFIT BY RESUMPTION.

To the man whose wealth consists in money, the resumption of specie payments is a business transaction of a profitable character. If it should be brought about within one year it would be equal to a profit of 10 per cent. free from taxes, and without labor or risk. If the money be already yielding an income of 10 per cent., resumption within a year will make 20 per cent. Of course one man or class cannot make a profit without somebody else pays it. It need, therefore, excite no surprise that there is a strong pressure from many quarters for speedy resumption. It is, however, but killing the goose that lays the golden egg. The general business and prosperity will suffer the penalty, in which the capitalist must participate, and in the long run the inevitable law of retribution will turn the profits of forced resumption, like Dead Sea apples, to ashes upon the lips.

The success and popularity of the greenbacks have far exceeded the most sanguine expectations of their inventors, and their introduction has been a long step forward in the improvement and perfection of paper money.

Nevertheless, the greenback is upon its face a promise to pay dollars, which means gold dollars, and this promise was restated in the act of 1869, and declared to be an obligation to pay in coin when it was practicable to do so.

WHAT DO GREENBACKS PROMISE?

The word "practicable" in the law of 1869 is not synonymous with "possible." It does not mean at every sacrifice, or at all hazards, but when the Government is in a condition to do it, and it can be done without injury to the general prosperity and the business of the country. Upon the greenback circulation there can be no technical default by the Government. It is not a private but a public obligation, part of a general system of finance and administration issued for purposes of general policy and to be paid in the same way. The greenbacks were issued as a substitute for coin, the day of payment left indefinite and dependent upon the future condition and business of the country.

In the case of The Bank *vs.* The Supervisors, (7 Wallace,) the Supreme Court of the United States defined the nature and character of the greenback circulation:

> Under the act of March 3, 1863, another issue of one hundred and fifty millions was authorized, making the whole amount authorized four hundred and fifty millions, and contemplating a permanent circulation, until resumption of payment in coin, of $400,000,000. * * * Under the exigencies of the times it seems to have been inexpedient to attempt any provision for the redemption of the United States notes in coin. The law therefore directed that they should be made payable to bearer at the Treasury of the United States, but did not provide for payment on demand. The period of payment was left to be determined by the public exigencies.

People who take the greenbacks do not expect to get the gold for them; not one in ten thousand thinks of such a thing. They take them as money in which they have perfect confidence, in the way of business, and not with a view to their ultimate redemption, unless it be here and there a capitalist to whom specie payments would be a speculation like a venture in cotton or stocks. All pretenses that the people are disappointed and complain because the greenbacks are not redeemed in gold are gross exaggerations and wild extravagances of speech.

There are inconveniences attending our irredeemable currency and resulting from the fluctuations in the price of gold. No one denies it. But how trifling have they been for the last ten years when com-

pared with the vast benefits, the growth and development, which have sprung from that currency! And how trivial and contemptible will they be for years to come, when compared to the hardships and grinding oppression to result from forced resumption!

We must take the greenback as we find it. Its character cannot now be changed, and the promise to pay it in coin is an unanswerable reason why it cannot be substituted for the national-bank note. Another reason why it cannot be substituted for the bank-note is that in the act of June 30, 1864, it was declared that—

Nor shall the total amount of United States notes, issued or to be issued, ever exceed $400,000,000, and such additional sum, not exceeding $50,000,000, as may be temporarily required for the redemption of temporary loan.

This, it is claimed, was in the nature of a contract with the purchasers of our bonds, that the amount of four hundred millions cannot be exceeded without a breach of faith. Again, it is held by many that, although the Supreme Court has affirmed the power of Congress to create the greenback, it would be a strain upon the Constitution to make a further issue after the emergencies of the war have passed; and it is not desirable that the Government should permanently furnish the currency of the country.

COURSE OF THE DEBATE.

Let us note the progress of this discussion. The resolution, which was introduced at the beginning of the session, declaring it to be the duty of Congress to take immediate steps for a return to specie payments, after six weeks of debate, was abandoned. This resolution was supported by arguments in favor of the contraction of the currency—arguments to show that a smaller volume of currency would be better for the country; arguments to prove that by mere contraction we can come to specie payments, the great object of all governments and the chief end of man. But of late the argument for contraction has been driven off the field; we hear no more about it. The great champions of contraction have learned a new song, the refrain of which is "inflation." The present volume of currency is the result of accident and circumstance. It has been brought about by various causes, not looking to or growing out of the precise demands of the business of the country; and yet a suggestion that it is too small is denounced as a heresy, and almost as a crime. The ineffable absurdity of this position is beyond comprehension. The question whether we have enough currency is one that ought to be left open to free inquiry, without exciting animosity and vituperation. The great mass of the people, who think there ought to be some increase of the currency, and are opposed to any hot-bed, artificial process for returning to specie payments, are not heard in this Chamber. They do not send deputations here to fill the lobbies, to go before committees, and to waylay Senators on the streets and at hotels.

HOW MUCH GOLD HAVE WE?

The estimate of the Director of the Mint is that we have in this country now about one hundred and forty millions of gold. Of this amount about eighty millions are held in the Treasury belonging to the Government, or deposited by private individuals. Clearly the Government cannot resume specie payments with only one hundred and forty millions of gold in the country. How, then, shall we increase the quantity? First, we are told, by the produce of the mines, which cannot exceed forty millions per annum. Yes; but we owe full thirteen hundred millions abroad in the form of Government, railroad, State, and other corporation bonds, the interest upon which has to be paid in coin. The interest on this debt must exceed the whole annual product of the mines by from ten to fifteen million dollars. So we must look elsewhere for the increase in our stock of gold. If we turn to our foreign trade, we find that we buy much more than we sell, and that difference has to be paid in gold. Taking the last six years together, our imports have exceeded our exports by four hundred and forty-four millions. It is manifest, therefore, that we cannot increase our stock of gold by the foreign trade.

CAN WE GET IT IN EUROPE?

The next plan is to sell our bonds in Europe for gold to be brought here and put into the Treasury. But the late Secretary of the Treasury tells us that our bonds offered in the markets of Europe for such a purpose cannot be sold at all; that one hundred millions of gold withdrawn from Europe in that way would produce a panic, resulting in violent financial and commercial derangements; that our 5 per cents could not be sold in Europe by the syndicate except upon condition that they should be exchanged for our 6 per cent. bonds held there, so that no gold was transferred to this country. Even the fifteen millions, the amount of the Geneva award, the English government was not willing to pay in gold, and negotiated for its conversion into our bonds held in England, so that no gold was brought away.

SPECIE PAYMENTS RESULT FROM THE NATIONAL CONDITION.

England, Germany, and France, with the accumulations of capital through centuries, owning all their public and private bonds at home, and holding the public and private bonds to the amount of thousands of millions of other countries, which are annually drained of gold to pay the interest upon them, with difficulty maintain specie payments, and fight against the withdrawal of a few millions of gold as if it would take their very life-blood. Clearly, the maintenance of specie payments in those countries is the result of their condition, not of their peculiar financial systems. Their financial systems are themselves the outgrowth of their condition, and have not produced them.

OBSTACLES IN OUR CONDITION.

When the United States come to specie payments, one of two things must happen: the greenbacks must be redeemed in coin and retired, or if redeemed in coin and again put into circulation, the Government must be continually prepared to redeem them again when presented. When that time comes the banks will also be required to redeem their notes in coin, and for this purpose must keep on hand large coin reserves. Then, we will suppose that the gold-room has been abolished, for the reason that speculation in gold has ceased. Parties, therefore, who have to send gold abroad in payment of their debts, or of State or corporation bonds, or who need it to pay duties, will no longer go to the gold-room to buy it, but will procure it by presenting at the Treasury of the United States, or at the counters of the banks, greenbacks or national-bank notes for redemption, and will thus make a continual demand upon the Treasury and the banks for coin. When that time comes the assorting of bank-notes, and their return for redemption in coin, will become an established business.

Under the old State-bank system a bank was not held to be safe or well conducted that had not in its vaults one dollar in gold for three dollars of its notes in circulation. The notes of the national banks, being secured by United States bonds, a smaller gold reserve would undoubtedly answer, were it not that the banks would be continu-

ally drawn upon for coin for the importers and the payment of debts abroad. The annual drain upon the country for gold to pay foreign balances and interest will come home directly to the banks and the Treasury; and, leaving out of view how they are first to get enough to resume, the question I submit is, how are they to meet this continual drain abroad? The annual average export of specie and bullion from this country, deducting imports, for the ten years ending on the 30th of June last, was $61,935,212.40, and for the last year of the period the export was $73,905,546, this much, besides large amounts of which the Government had no knowledge or means of knowledge.

Notwithstanding the healthy financial condition of England, they have had disastrous panics in that country every ten years, on an average, since 1795, creating sudden demands for gold, disordering and threatening the stability of every financial system in Europe based upon gold. If we were at specie payments to-day, a financial panic in England to-morrow would inevitably lead to the suspension of every bank in the United States. I repeat, that the difficulty is not in our system, but in our situation. Has any country ever maintained specie payments under such circumstances?

OLD VS. NEW COUNTRIES.

The man who believes that because Germany, an old country, densely crowded with population, where every acre of land is cultivated, thickly planted with manufactories, with a superabundance of labor, with a low standard of wages, where from emigration population scarcely increases, where railroads and every form of public improvements are almost completed, and where the country is, in nearly every sense, finished, can maintain specie payments, that the United States can do the same thing, clearly does not understand our country. Here is a country in its youth, but partially settled, with a population of forty millions but capable of five hundred, with no surplus capital to invest in the bonds of other countries, with its public works unfinished, with its towns and cities not half built, rapidly growing in population, wealth, and business, with colonies overrunning mountain, plain, and desert, with new Territories fast ripening into States. And attempt is made to bind up and fetter its expanding energies and prospects with Old World theories and methods. As well attempt to put baby-clothes upon the statue of Hercules. Such men judge our country by the Old World standards. Sitting upon the steps of our national Capitol, they look up the stream of time, study the inscriptions upon the Pyramids, and the financial theories of China, and call it learning.

When paper money was first invented, the solemn philosophers of that age declared it to be an innovation not to be endured; that gold and silver had been the only money of the world, the medium of exchange for more than four thousand years; that as such they had the sanction of time and the universal experience of mankind; that the idea of substituting for them stamped paper was contrary to the established principles of political economy. But public and private convenience, political necessities, and common sense gradually prevailed against prejudices inherited from ages of barbarism, until paper money in some form became the medium of exchange in the most enlightened nations. But some nations still stand out and cling to gold and silver as the only safe and respectable medium of exchange, and are dragging their way down the path of time generally far in the rear of their more enlightened, wealthy, and prosperous neighbors.

DOES DEPRECIATION ARGUE REDUNDANCY?

Upon this floor it has been repeatedly declared by the Senator from Missouri, [Mr. SCHURZ,] by the Senator from Massachusetts, [Mr. BOUTWELL,] and by the Senator from Ohio, [Mr. SHERMAN,] that the measure of the depreciation of our currency is the measure of its redundancy. The substance of this proposition is that, as our currency is depreciated about 10 per cent., a reduction of 10 per cent. in the volume of it would bring the remainder to par without any provision for its redemption. This goes beyond the concession made by Mill. It is a radical departure from the theory of necessary convertibility, dispenses with redemption, and is a complete admission that paper money issued by a government, sustained by its credit and authority, and to which certain uses and capabilities have been given by law, when the amount is adjusted to the wants of the country, may be equal in value to gold. It presents contraction as the remedy for depreciation, and leaves out gold redemption and convertibility into coin.

If the volume of our currency was reduced 10 per cent. there would still be left six hundred and seventy-five millions, an amount twice greater than the gold ever in circulation here at one time. The Senators enunciating this proposition seem not to be aware that it demolishes the theory of necessary convertibility, robs gold of its necessity, and prepares the way for new systems of finance quite unknown to antiquity.

TRUE CAUSE OF DEPRECIATION.

But I dispute the proposition that the measure of the depreciation of the currency is the measure of its redundancy. The depreciation does not depend upon that cause, but chiefly upon the fact that it cannot be used in the payment of the public debt, principal or interest, or in payment of duties. In this respect the greenbacks are depreciated by law, being denied an important function in our financial system. The interest upon the public debt must be paid in coin, and, to procure that, duties upon imports are made payable in coin. If we had no public debt, or if the interest upon it was payable in currency, then the duties might be collected in greenbacks; and there can be no doubt that they would be of the full value of gold. But while importers must procure about one hundred and seventy millions of gold annually with which to pay duties, there will be a strong demand for it in the market, and gold will be at a premium.

To this demand for gold to pay duties may be added that for gold with which to pay the interest upon our State and corporation debts held abroad, and to settle the balance of trade which annually accrues against us. The depreciation of the currency is not the result, therefore, of its redundancy, or of its intrinsic defects, but of the situation by which a large demand is created for coin for a specific purpose, for which the greenback is disqualified by law and by contract. It is not our system, but it is the situation that is in the way.

SHOULD WESTERN PEOPLE HAVE BANKS?

I now come to a proposition urged in this debate with an air of triumph as an answer to the claims of the West and South for an equal participation in the benefits of the national banking system. They are gravely assured that every bank they establish with their own capital is an absolute loss, that it is to their interest to let the Eastern States have all the banks. Lest the country will not believe that any Senator could have made such an argument unless they read it, I quote it literally from the speech of the Senator from Missouri:

Now see how this operates. For a $1,000 bond they have to buy they pay, as 5 per cent. bonds now stand, about $1,120 in currency. That sum of $1,120 is withdrawn

from their home circulation and is added to that of New York. Then they take the $1,000 bond so purchased to Washington, and for that $1,000 bond they get $900 in bank currency, and the $900 they carry home. Then they lock up 15 or 25 per cent. on the $900, as the reserve prescribed by law, in their bank vaults, as they may be country or city banks. For the $1,120 carried to New York the country bank then puts out $865 and the city bank $675 to accommodate their customers with loans and discounts. These loans and discounts may indeed come back to the bank every thirty or sixty or ninety days. But does not the Senator from Indiana see, is there anybody so blind as not to see, that a much greater amount had gone East before the western or southern bank could make any loans and discounts to its customers with its national-bank circulation? Is it not clear as sunlight that for every $865 issued by a country bank, or every $675 issued by a city bank, $1,120 had gone to New York before? Is it not clear that the amount of loanable money, instead of being increased, has been diminished 30 to 40 per cent. by the operation? It is true that by the establishment of national banks here and there some greater banking facilities may be offered. They take deposits, and they make discounts; but the value of all the facilities thus offered will not make up for the diminution which the home circulation, the amount of loanable money has actually suffered in that locality by the process. Where, then, is the increased accommodation of the business public? Nowhere; but the result is just the reverse.

How stupid the people of Indiana, Ohio, and Missouri have been in the establishment of any national banks, and how grateful they must be for information which will save them from further losses in that way!

I will take the case of a bank in a western town, and consider the manner of its organization, with a capital of $112,000. The persons proposing to get it up prepare a subscription paper which they present to responsible parties. A mechanic subscribes $1,000; a merchant $2,000; a farmer $500, and so on until the amount is made up. The amounts subscribed are seldom taken from money already loaned, but generally from the several kinds of business in which the subscribers are engaged. When the bank is organized it buys $100,000 of 5 per cent. United States bonds, for which, according to the supposition, $112,000 in currency is paid. Upon the deposit of these bonds the bank receives $90,000 in currency. From this deduct 15 per cent. reserve, $13,500, and you will have $76,500 left for loanable purposes. If the bank is well conducted it will be likely to attract deposits equal to the amount of its capital stock, of which $75,000 would be subject to loan.

And now we consider the advantages to the community in which the bank is located. They have the use of $76,500 of currency drawn from sources from which few, if any, loans were made before. They have the use also of deposits made in the bank to the amount of $75,000, which, but for the bank, would be retained in the pockets of depositors, and not available for the accommodation of borrowers; thus making an average of $150,000, all told, of loanable funds. They have the use of bank checks and facilities which take the place of currency and contribute to the wants of business to a large extent; and the beneficial influence of the bank will be likely to be seen in the increased enterprise and general improvement of the town and the surrounding country. The currency issued by the bank and the deposits loaned by it are localized, and a like amount of money must return to the bank every thirty, sixty, or ninety days in payment of loans, and be there to be borrowed again by those who need it.

To show the advantage to the country, in the way of loanable funds, produced by the national banking system, I refer to the report of the Comptroller of the Currency, which shows that on the 12th day of September last the capital stock of all the banks in the United States was $491,072,016, while on the same day their loans and discounts were $940,233,304; and to bring the matter a little nearer home to the Senator, the same report shows that on the 13th of October last the twenty-nine national banks in Missouri, outside of Saint Louis, had a capital stock of $2,685,000; and on the same day their loans and discounts were $4,904,931.

But, to make out his case, the Senator assumes that the $112,000 paid out in New York in the purchase of bonds will remain there permanently, notwithstanding he and all those upon his side have argued throughout this debate that money will flow wherever it is most needed, just as water runs down hill; that it makes no difference where it starts or is paid out; that if there be a greater demand for it in New York than elsewhere it will stay there, but if the demand is greater in the neighborhood from which the money was taken, a like amount will flow back there. He further forgets that, according to his own argument, if the demand in New York is greater than elsewhere, so as to keep the money there when paid out for bonds, that same demand would have drawn the $112,000 from the country neighborhood, although it had not been taken to New York to purchase bonds.

And this illustrates the difference between greenbacks paid out by the Government and currency issued through the banks. The greenbacks have no local habitation and go wherever the currents of trade take them; but currency issued through the banks in the way of loans is localized, and a like amount must return to the locality periodically in payment of the loans, and is there to be borrowed again by persons in that locality.

IF UNPROFITABLE WOULD IT PRODUCE INFLATION?

Again, the Senator seems unconscious of the fact that his argument proving that it is unprofitable for the people of the West and South to establish national banks—a thing they did not know before, but which they know now after the Senator has told them—repels the argument, made by him and others, that upon the establishment of free banking there would be such a rush into the business from every direction that the currency would be largely inflated and depreciated. According to his argument, there would certainly be no danger in allowing the people of the Western and Southern States to have as many banks as they wanted, since they have been instructed that they would be largely the losers by their establishment, a thing which one would suppose they would have found out themselves in an experience of eight years; but which, it appears, they did not.

There is another consideration which the Senator ignores entirely; that is, that if there were opportunity offered for the establishment of banks in the West and South, large amounts of eastern capital would be at once invested in that way. The local demand for national banks would make the capital invested in them more profitable than if retained in the East. This has already occurred extensively, large amounts of the capital in the existing banks in the West and South having been sent from the East, and some of it from as far East as England and Germany.

The establishment of national banks is a costly business, and requires the investment of actual capital. The profits of the banks upon the currency they receive from the Government do not exceed, according to the report of the Comptroller of the Currency, 2 per cent.; the profits of national banks depend chiefly upon the local wants of the neighborhoods in which they are established, creating a demand for their currency, and confidence in their character and management securing to them deposits, which are again loaned to the people. In the absence of this local demand, national banks cannot be profita-

bly conducted, and would unquestionably be abandoned. If banks could be established without capital, like those of John Law or the wild-cat banks of Michigan, where no security was required to be given for the redemption of their notes, then, indeed, free banking would be dangerous. But of the difference between the two systems the Senator from Missouri is at this point of his argument oblivious. In one part of his speech banks are too costly to be started in the West and South; in another part of his speech, people would rush into banking as if it cost nothing.

A RULE THAT WORKS BOTH WAYS.

The Senator from Missouri says that any increase of the currency will cause a corresponding depreciation and a rise in the premium on gold, and that the general prices of commodities will be increased in the same way; and after that states the following proposition:

> A considerable portion of some of the most important products of agriculture is exported, and the home price of the whole crop of those specific articles is regulated by the foreign market. That is a universally known and recognized fact. The prices ruling in the foreign market are, first, depressed by the free competition of the whole world; and, secondly, a specie standard prevailing there, they are not driven up by the inflation that has enhanced the prices of all other articles in this country. The farmer or the planter has, therefore, to sell these staple crops at the low prices regulated by the foreign market, while for all the necessaries he has to buy he pays the prices grown up to an exorbitant height, far beyond the premium on gold by our home inflation.

If increasing the currency increases its depreciation and the premium on gold, then the gold price which the farmer receives abroad for his products will buy an increased amount of this currency at home, to be used in the purchases which he has to make; so that he is no loser in the operation. If, by the greater depreciation of the currency and increase of the premium on gold, the prices of the commodities which the farmer has to buy are enhanced, the increased premium on gold which he receives in foreign markets for his produce exactly meets this enhancement of the prices at home, so that he comes out even.

In anticipation of this answer the Senator says that the prices of home commodities will be enhanced beyond the increase of the premium on gold. But this is a mere assumption, unsupported by fact or argument, and at war with his own premises.

The whole business of the country is upon a level with the currency, which, as compared with gold, is at a discount of 10 per cent.; and the relative prices of all commodities are adjusted to each other as perfectly as if the currency was coin instead of paper. The conversion of the currency prices of our exports into the gold prices of Europe is as easy as the conversion of the dollar into the English pound sterling. From the export you deduct the discount, and to the import you add it. The adjustment of currency to gold prices is as simple as the rules of addition and subtraction; but around it there has been thrown a fog of mystery in which a good many unhappy people have lost their way.

INCREASE OF REDEEMABLE BANK-NOTES WILL NOT CAUSE DEPRECIATION.

But I dispute the proposition that by a reasonable increase of the currency it will be depreciated. If the increase were greatly in excess, and consisted of greenbacks, it would have that effect. The Senator himself is upon record for the declaration that if the volume of the currency be just equal to the wants of the nation, it will remain at par without provision for its redemption in gold. But should the increase of currency even exceed the actual demands of the country, its value will not be depreciated as compared with gold, if it consists

of national-bank notes, and there be no increase in the amount of greenbacks. By increasing the volume of national-bank notes to be redeemed in greenbacks, you increase the demand for greenbacks as reserves, and thereby increase their value. The national-bank notes will be exactly equal in value to the greenbacks into which they are convertible, for any paper currency is always equal in value to that medium of exchange into which it is convertible.

Should the volume of national-bank notes at any time become in excess of the business wants of the country, they would be returned for redemption; and should there spring up any difference between the value of national-bank notes and greenbacks, brokers and bankers would at once speculate upon that difference, and the bills would be returned for redemption until the difference disappeared. I may just here call the attention of the Senate again to the fact that the whole argument to show that any increase of the volume of the currency will depreciate its value and produce an inflation of prices depends upon an obstinate refusal to consider the question whether such increase merely keeps pace with the increase of the population and business of the country.

IS THEIR SAFETY AN OBJECTION?

To prove that any increase of the national-bank circulation will lead to its depreciation, the Senator states the following formidable and solemn objections to the character and office of the national-bank note:

> Now, sir, although they are not literally made a legal tender in the discharge of private debt, yet being received by the Government for what is due it, and being paid out by the Government for what it owes, they are practically made a legal tender for all purposes, like the greenback. They are, moreover, founded on the secure basis of Government bonds, payable, principal and interest, in gold. Their circulation is therefore not local, but national in the widest sense of the term, just like that of greenbacks. They are just as safe, and in one sense they are even more so, for they have behind them the solid foundation of a United States bond, payable in gold, and at the same time the ability to pay of the bank that issues them. It is, indeed, provided that they shall be redeemable on demand in Government legal-tender notes, but there is really, as far as I can see, no inducement for the holder of a national-bank note to convert it into a Government legal-tender, for the bank-note does just the same business, and is just as safe as the other. The breaking of the bank that issued it does not injure its value in the least.

Here the argument to prove that the national-bank notes would be depreciated by increasing the number is deduced from the fact that they have the solid foundation of a United States bond, payable principal and interest in gold, and at the same time the ability to pay of the bank that issues them, and so well secured are they that the breaking of the bank that issued them does not injure their value in the least; in addition to which they are receivable for all Government taxes except duties on imports.

The Senator has here unconsciously answered volumes of sophistry that have been uttered about our "irredeemable, depreciated, swindling, and worthless currency." He has put to shame his own comparisons between our currency and the paper money of China, of France during the revolution, the confederate money, and the continental money issued by the Congress of the Confederation.

The Senator is entitled to the distinguished honor of having made the discovery that the exceeding safety of the national-bank notes is the chief cause of their depreciation, and the best argument to prove that great danger will result to the country from any increase in their quantity.

I come now to the most remarkable part of the Senator's argument, in which he declares that he will vote for free banking, without redemption in gold, upon the following conditions: That that part of

the national-bank act which provides that the national-bank notes shall be a legal tender in payment of taxes to the Government be repealed; and that the system of redemption of the bank-notes in greenbacks be made more effectual by establishing assorting-houses at the different business centers of the country.

Here the Senator declares himself in favor of free banking upon condition that the national-bank notes are made less valuable by taking from them certain properties which they now possess in the payment of taxes. He is content to have the number of these notes increased, provided they are first depreciated by law. It had generally been supposed by unlearned persons that the more valuable a currency was and the greater the functions it possessed, the safer it was for the country. According to this logic, if the national-bank notes are emasculated in the way he proposes it will avoid the danger of inflation; which, put in another form, amounts to this: that bank-notes may be safely issued if they are first depreciated by law, made incapable of performing the most valuable offices of currency, and rendered so nearly worthless that people will not take them, or, if they do, will hasten to have them converted into greenbacks.

INTEREST.

Interest is the measure of value for the use of money for a given period. Other things being equal, the rate of interest depends upon the abundance or scarcity of money in a given State or country, to be used in the way of loans. The rate of interest, like the prices of commodities, is determined by the law of supply and demand. Where money is plenty, and there is small demand for it, the rates of interest are always low; where the supply is about equal to the demand, the rates of interest are medium; where the demand is greater than the supply, the rates of interest are correspondingly high. When the currency is contracted, the rates of interest are increased until such time as the business of the country has been so far destroyed as to destroy the demand for money, and then the rates may fall, and money seem to be plenty, from the absence of demand; which is very much the case now. By increasing the currency so as to make it just keep pace with the increase of population and business, the rate of interest will be undisturbed; but if it be so increased as to make money plentier when compared to the business than it was before, the rate of interest must be decreased.

CONCLUSION.

In conclusion, the great attraction which the United States have presented to the people of the Old World for nearly one hundred years has been wherein they differed from it, and not wherein they resembled it. The great business of this generation, and of generations to come, is the development and improvement of our own country, the upbuilding of our industries, and the establishment of our independence commercially, as it was long ago established politically. Our foreign commerce is a mere bagatelle when compared with our domestic trade; and instead of making the interests and prosperity of the latter dependent upon the former, I would much prefer to reverse their relations. Our country, more than any other, ancient or modern, possesses the elements of commercial independence, for it is capable of producing nearly all the natural and artificial commodities that enter into the wealth, the comfort, and the happiness of nations. That system of finance is the best which most promotes our internal growth and development, and under which we have so signally prospered.

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